

Metropolitan Transportation Commission

**Agreed-Upon Procedures Report on Operating
Expenses Charged by the California Department of
Transportation (DOT) to the Bay Area Toll
Authority (BATA)**

Report of Independent Accountants

To Mr. Mayhew:

We have performed the procedures enumerated below, which were agreed to by the Metropolitan Transportation Commission (MTC), solely to assist you in evaluating the operating expenses charged by the California Department of Transportation (DOT) to the Bay Area Toll Authority (BATA) for the period of July 1, 2007 through March 31, 2008. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures Performed

Procedure 1:

For the period July 1, 2007 to March 31, 2008 obtain the listing of project expenditures and their related support Expenditure Authorizations (EAs). Agree the totals of each of the expenditure reports to the DOT/BATA Cooperative Agreement summary of expenses sent by the DOT to BATA for the period under review. Haphazardly select 95 expenditures from the project expenditure reports. The selection is to comprise 15 direct materials charges, 10 other direct costs, 25 direct labor charges and 45 overhead charges.

Results:

We obtained the listing of project expenditures and their related Expenditure Authorizations (EAs) from the FIDO report (Financial Information Download Oracle) for the period July 1, 2007 to March 31, 2008. This data is tracked and maintained within TRAMS (Caltrans accounting software). We then agreed the totals of each of the expenditure reports to the DOT/BATA Cooperative Agreement summary of expenses sent by the DOT to BATA for the period under review (otherwise referred to as the ROE - Report of Expenditures).

Project Name	Project	Total Expenditures per FIDO report	% of total	Total Expenditures per ROE	Variance
Maintenance	E4280	2,989,799.42	0.6%	2,989,799.42	0.00
Seismic	E4650	422,351,453.46	81.6%	522,351,453.46	(100,000,000.00)
PM-1	E4489	92,143,024.32	17.8%	92,143,024.32	0.00
		517,484,277.20	100.0%	617,484,277.20	(100,000,000.00)

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One reconciling item was identified in the amount of \$100 million and relates to the transfer of Highway Bridge Replacement and Rehabilitation Program (HBRR) funds to Bay Area Infrastructure Financing Authority (BAIFA) for the Seismic Project payments. Supporting documents provided by the DOT indicated that \$100 million of expenditures were transferred from BATA to Caltrans. This \$100 million payment is recorded as a federal reimbursement credit and does not relate to the specific project expenditures incurred; this item is appropriately not recorded in our population to perform procedures over.

We haphazardly selected 95 expenditures from the project expenditures (FIDO) report. The selection is comprised of 15 direct materials charges, 10 other direct costs, 25 direct labor charges and 45 overhead charges.

DIRECT MATERIALS CHARGES

Procedure 2:

For the 15 direct material charges as selected from the FIDO report, obtain all of the material components of that charge. Agree each expense per the FIDO report (TRAMS) to the supporting claim schedule and invoice. In addition, examine the nature of the expenditure to determine whether the expenditure appears to relate to a BATA project.

Results:

For the 15 direct material expenditures haphazardly selected from the FIDO report (Agency Object Code 118), we requested all of the material components of each charge and all related invoices and claims schedules. The 15 expenditures selected were comprised of a total of 34 different expense components.

For each direct material charge selected, DOT confirmed that each expenditure is based on the average cost per material or supply maintained within the SVS (Material Management System) database. The direct materials are ordered from third party vendors at varying times and the cost per item may differ depending on the market price at the time of each purchase; therefore no invoices or claims schedules for the original purchase could be tied directly to the expenditures which are based on average cost. DOT provided additional support for these expenditures, as documented below.

For the expense components marked by a "W", we reviewed the Local Request EDP (LREDP) reports and the SVS reports. The LREDP reports are created by the local engineers for each project, identifying the type and quantity of materials or supplies needed for Transaction Code 241 (non-maintenance direct materials). This report is manually generated and includes the corresponding EA to be charged for the request. In addition, this report shows who requested the materials and who signed off for approval. Once this document is received by a SVS operator, the information is entered into the SVS system to complete the transaction request and expensed to the appropriate EA. SVS maintains all information relating to maintenance and non-maintenance direct materials allocation and it interfaces to TRAMS to update the project expenditures incurred for all requests. We tied the district, EA, material identification number and quantity presented on the LREDP reports to the SVS report for the specific purchase without exception. We then tied the expenditure balance presented on the SVS report at average cost to the FIDO report without exception.

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For the expense components marked by an "X", we reviewed the Integrated Maintenance Management System (IMMS) Completed Work Order reports and SVS reports. IMMS Work Orders are used for all direct material Transaction Code 064 (maintenance direct materials). These reports present the same information as the LREDP reports but also include the total cost per item requested. We tied the district, EA, material identification number, quantity and price to the SVS report for the specific purchase without exception. We then tied the expenditure balance presented on the SVS report at average cost to the FIDO report without exception.

For expense components marked by a "Y", no SVS report was provided at the time of request and, accordingly, the respective material identification number and total expense per item could not be tied to the IMMS Work Order report provided as support. However, we were able to tie the expenditure balances presented on the IMMS report (which included our selection) to the FIDO report without exception.

For two expense components, marked by a "Z", DOT was unable to produce any supporting documents other than SVS reports. The amounts of these two expense components presented on the SVS report were tied out to the FIDO report without exception. These two expenditures are classified under Transaction Code 241 and are therefore requested through a LREDP report. No LREDP report was available for review at the time of request. PwC inquired as to why the report was not available and DOT responded that these documents are sometimes difficult to obtain given the manner in which the reports are tracked throughout the request process.

The LREDP reports are maintained by the resident engineer or project manager. In order to track down these documents, the expenditure must first be located in the SVS database as this database maintains the LREDP document ID number. Once that is identified, a request is sent out to track down the LREDP report from the responsible parties; depending on the time in which these requests were submitted and the turnover of contacts responsible for that project, it is difficult to identify the right person who had knowledge of this information. DOT made several attempts to contact the correct persons to obtain this requested documentation.

We identified the EA's that the direct materials charges were associated with and examined the A, B, & C-cards for those EA's. These cards provide a description of the nature of the expense, the funding district and the corresponding project covered by the EA. Based on our review of the descriptions and our knowledge of the BATA project activities we did not note any exceptions to the assertion that the EAs included expenditures that were BATA project related.

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Ref No.	Contr Id	EA	Subjob	AO	Vendor	Amount	IT
	E4280	926854	3T91A	118	S 048	\$30.54	X
	E4280	926854	3T91A	118	S 048	\$414.30	X
						\$444.84	
	E4280	926856	3T95A	118	S 048	\$3.92	X
	E4280	926856	3T95A	118	S 048	\$357.54	X
	E4280	926856	3T95A	118	S 048	\$1,966.80	X
	E4280	926856	3T95A	118	S 048	\$14.40	X
	E4280	926856	3T95A	118	S 048	\$259.35	X
						\$2,602.01	
	E4280	926852	3T98A	118	S 058	\$20.71	X
	E4280	926852	3T98A	118	S 058	\$20.71	X
						\$41.42	
	E4280	926856	3T95A	118	S 058	\$3,318.98	X
	E4280	926856	3T95A	118	S 058	\$68.46	X
	E4280	926856	3T95A	118	S 058	\$7.07	X
	E4280	926856	3T95A	118	S 058	\$643.68	X
	E4280	926856	3T95A	118	S 058	\$376.53	X
	E4280	926856	3T95A	118	S 058	\$73.29	X
						\$4,488.01	
	E4280	926855	3T96A	118	S 058	\$17.12	X
	E4280	926855	3T96A	118	S 058	\$6.76	X
						\$23.88	
	E4489	006064		118	S	\$ 3,321.82	W
	E4489	006084		118	S	\$ 3,321.82	W
						\$ 6,643.64	
	E4489	970013		118	S	\$155.03	Z
						\$155.03	
	E4489	970400		118	S	\$ 1,102.82	W
						\$ 1,102.82	
	E4489	926855	3T96B	118	SP048	\$ 1,612.50	X
						\$ 1,612.50	
	E4650	0120R4		118	S	\$ 224.64	Z
						\$ 224.64	
	E4650	0120R3		118	S	\$ 462.25	W
						\$ 462.25	
	E4650	0120R3		118	S 038	\$ 154.56	Y
	E4650	0120R3		118	S 038	\$ 414.60	Y
	E4650	0120R3		118	S 038	\$ 377.58	Y
	E4650	0120R3		118	S 038	\$ 50.80	Y
	E4650	0120R3		118	S 038	\$ 70.70	Y
	E4650	0120R3		118	S 038	\$ 33.46	Y
						\$ 1,101.70	
	E4650	0120R3		118	S	\$ 579.14	W
						\$ 579.14	
	E4650	0120F4		118	S	\$ 864.42	W
	E4650	0120F4		118	S	\$ 4,419.29	W
						\$ 5,283.71	
	E4650	0120E3		118	S	\$ 1,545.00	W
						\$1,545.00	

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OTHER DIRECT COSTS

Procedure 3:

For the 10 other direct costs as selected from the FIDO report, obtain all of the other direct cost expense components of that charge. Agree each expense per the FIDO report (TRAMS) to the supporting claim schedule and invoice. In addition, examine the nature of the expenditure to determine whether the expenditure appears to relate to a BATA project.

Results:

For the 10 other direct costs expenditures haphazardly selected from the FIDO report, we requested all of the other direct cost components of each charge and all related invoices and claim schedules. The 10 expenditures selected were comprised of a total of 20 different expense components. For the expense components marked with a "✓", invoices and claim schedules were provided and agreed to the FIDO report (TRAMS) without exception. For the expense components marked by an "A", these relate to reimbursable, employee travel expenses, for which we obtained travel reimbursement claims. We agreed the claims to the expenditure amount in TRAMS without exception. The last two expense components marked by a "B" are related to utility charges for which DOT provided the 'Paper Utility Billing System (PUBS) bills paid report', which agreed to TRAMS without exception. 'PUBS' is an Electronic Data Interchange (EDI) system which is used to send and receive billing information with all contracted utility companies.

We identified the EA's that the other direct costs charges were associated with and examined the A, B, & C-cards for these EA's. These cards provide a description of the nature of the expense, the funding district and the corresponding project covered by the EA. Based on our reading of the descriptions and our knowledge of the BATA project activities we did not note any exceptions to the assertion that the EAs included expenditures that were BATA project related.

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Selection	EA	Claim Schedule	Invoice #	Invoice Date	Pay Date	Invoice Amt.	TOT
	926854	8U00523	n/a	n/a	8/27/2007	1,154.05	B
						1,154.05	
	926854	8R21877	n/a	n/a	12/6/2007	561.66	A
	926854	8R21900	n/a	n/a	12/11/2007	280.83	A
						842.49	
	013093	8D10059	1122	6/11/2007	7/5/2007	25,479.88	✓
	013093	8D10214	1132	6/26/2007	7/16/2007	1,779.28	✓
	013093	8D10400	1143	7/3/2007	7/27/2007	22,288.01	✓
						49,547.17	
	970100	8U00523	n/a	n/a	8/27/2007	1,923.41	B
						1,923.41	
	970400	8K50022	1344301-0	9/6/2007	10/16/2007	950.95	✓
	970400	8K50022	46688	6/21/2007	10/16/2007	3,342.76	✓
	970400	8K50022	98410048	8/30/2007	10/16/2007	22.13	✓
	970400	8K50022	98395548	8/22/2007	10/16/2007	270.00	✓
	970400	8K50022	531524-00	9/14/2007	10/16/2007	1,165.36	✓
						5,751.20	
	012023	8K50008	109656	6/14/2007	7/25/2007	639.88	✓
	012023	8K50008	91-037-519	6/14/2007	7/25/2007	386.91	✓
	012023	8K50008	458433-00	6/15/2007	7/25/2007	298.40	✓
						1,325.19	
	0435V4	8D10677	33784653	7/27/2007	8/17/2007	453.26	✓
	0435V4	8D10677	33753906	7/27/2007	8/17/2007	138.20	✓
						591.46	
	0120F3	8D11350	231017	9/4/2007	9/20/2007	2,483.05	✓
						2,483.05	
	0120F3	8DPP258	CT-001 Revised	5/21/2007	8/22/2007	4,774.00	✓
						4,774.00	
	0120F3	8D13457	12	12/26/2007	1/18/2008	5,575.16	✓
						5,575.16	

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LABOR

Procedure 4:

From FIDO expenditure reports identified in procedure 1 above, haphazardly select 25 labor costs ensuring that the selection comprises 15 labor costs that include regular employee labor charges and 10 labor costs that include maintenance crew labor charges. Ensure the selection includes employees with overtime as well as employees with compensated time off.

Results:

We haphazardly selected 25 labor costs from the FIDO reports, ensuring that the selection comprised 15 labor costs that include regular employee labor charges and 10 labor costs that include maintenance crew labor charges. The 15 regular employee labor charges selected are listed in the table included within the procedure 5 results section and include 2 labor costs with overtime, 2 labor costs with compensated time off and 2 labor costs for temporary (or hourly) employees. The 10 maintenance crew labor charges are listed within the procedure 6 results section and included 4 labor costs with overtime and 2 labor costs with compensated time off.

DIRECT LABOR (Regular Employees)

Procedure 5:

For the 15 regular employee labor charges haphazardly selected from the FIDO report, examine the time entry for each of the employees in the on-line timesheets system (TOPPS). For each of the 15 employee labor charges selected agree the employee name, posting date, supervisor's name, pay rate and hours to TOPPS. Agree each of the 15 regular employee pay rates per TOPPS to the respective employee's personnel files.

Review the labor expenditure amount billed to the respective EAs and report the methodology used to compute the hourly bill rate. Report any adjustments made to the pay rate as referenced in the proceeding paragraph in order to arrive at the hourly bill rate.

Recalculate each of the hourly bill rates for the selected 15 employee labor charges in accordance with the prescribed formulas. In each instance recalculate the labor expenditure amount by multiplying the bill rate by the hours worked. Agree each of the recalculated labor expenditure amounts to the expenditure report and TRAMS. In addition, examine the nature of the labor expenditures to determine whether the expenditure appears to relate to a BATA project.

Results:

For the 15 regular employee labor charges haphazardly selected from the FIDO report, we examined the time entry for each of the employees in the on-line timesheets system (TOPPS). For 14 of the selected employee labor charges, marked by a "✓" or an "X", we agreed the employee name, posting date, supervisor's name, pay rate and hours to TOPPS without exception. For the selection marked by a "Y", we were able to agree all above information to TOPPS except for total hours. A variance of 4.5 hours exists between TRAMS and TOPPS, which equates to an absolute dollar value difference of \$163. We then agreed each of the 15 regular employee pay rates per TOPPS to the respective employee's personnel files without exception.

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In reviewing the labor expenditure amount billed to the respective EAs it was noted that for regular hours and compensated time off hours the hourly bill rate was computed by adding a Payroll Reserve Rate (PRAR) to the pay rate referenced in the preceding paragraph. This resulted in a computed bill rate which when multiplied by the hours worked arrived at the amount charged against the EA. Specifically, we noted that the bill rate was computed as follows:

- Regular hours: rate per hour per TOPPS x (1+PRAR rate) x hours worked
- Overtime hours: rate per hour per IMMS x hours of overtime worked) x 1.5
- Temporary hours: rate per hour per TOPPS x (1 + PRAR rate) x hours worked
- Compensated time off: rate per hour per TOPPS x (1+PRAR rate) x CTO hours x 1.5

We obtained the calculation of the PRAR for the period under review and tested the calculation for mathematical accuracy without exception. We noted that the PRAR was comprised of benefit inputs and included benefit descriptions. We obtained the State Administration Manual and reviewed Section 8470 to agree the benefit descriptions inherent in the PRAR calculations for each of the employees selected to the handbook without exception.

We recalculated each of the hourly bill rates for the selected 15 employee labor charges in accordance with the formulas depicted above. In each instance we recomputed the labor expenditure amount by multiplying the bill rate by the hours worked. We then agreed each of the recalculated labor expenditure amounts to the expenditure report and TRAMS; please see below "✓" selections for which the recalculated balance did not vary from TRAMS. Selections marked by an "X" tickmark indicate that a variance exists between TRAMS and the recalculated balance; total absolute variance noted is \$464 (and aggregated is \$35). The DOT was unable to provide additional support to reconcile the differences as of the date of this report.

We identified the EAs that the labor charges were associated with and examined the A, B & C-cards for each of these EAs. These cards provide a description of the nature of the expense, the funding district and the corresponding project covered by the EA. Based on our reading of the descriptions and our knowledge of the BATA project activities we did not note any exceptions to the assertion that the EAs included expenditures that were BATA project related.

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REF	Contr #	EA	Type	Base Pay	Hourly Rate	FRA %	Loaded Rate	Hours	Hours	Expense per TRAMS	Expense per TOPPS	Discrepancy				
								Worked per TRAMS	Worked per TOPPS							
E4489	0060A1	Reg	7,857.00	\$47.52	61.30%	\$76.65	16.00	16.00	-	-	1,226.47	1,226.48	✓	\$	0	
E4489	0060A1	Reg	6,523.00	\$39.45	61.30%	\$63.84	78.00	78.00	-	-	4,735.62	4,963.92	X	\$	228	
E4489	977088	Reg	8,657.00	\$52.36	61.30%	\$84.48	3.30	3.30	-	-	279.22	278.72	X	\$	(1)	
E4650	0120F3	Reg	8,657.00	\$52.36	61.30%	\$84.46	13.00	13.00	-	-	1,097.97	1,097.98	✓	\$	0	
E4650	012023	Reg	2,848.00	\$17.21	61.30%	\$27.77	134.00	134.00	-	-	3,720.67	3,720.68	✓	\$	0	
E4650	012023	Reg	3,103.00	\$18.77	61.30%	\$30.27	72.00	72.00	-	-	2,179.70	2,179.70	✓	\$	0	
E4650	0120L3	Reg	8,657.00	\$52.36	61.30%	\$84.48	131.00	131.00	-	-	11,064.22	11,064.24	✓	\$	0	
E4650	132953	Reg	6,116.00	\$36.99	61.30%	\$59.67	49.00	49.00	-	-	2,923.77	2,923.79	✓	\$	0	
E4489	970105	Reg	3,703.00	\$22.40	61.30%	\$36.13	13.50	18.00	(4.50)	(162.57)	456.24	487.72	X, Y	\$	21	
E4489	970500	TM	15.09	\$15.09	61.30%	\$24.34	4.00	4.00	-	-	103.68	97.36	X	\$	(6)	
E4489	970600	TM	16.64	\$16.64	61.30%	\$26.84	136.00	136.00	-	-	3,858.52	3,650.28	X	\$	(208)	
E4489	970700	OT	3,177.00	\$19.22	61.30%	\$31.00	16.00	16.00	-	-	461.18	495.93	✓	\$	0	
E4650	012023	OT	5,172.00	\$31.28	61.30%	\$50.46	33.00	33.00	-	-	1,548.49	1,665.16	✓	\$	0	
E4650	0120F3	CTO	4,095.00	\$24.77	61.30%	\$39.95	4.50	4.50	-	-	269.67	179.78	✓	\$	0	
E4650	012023	CTO	6,844.00	\$41.40	61.30%	\$66.77	16.00	16.00	-	-	1602.52	1068.35	✓	\$	0	
														Net Variance	\$	35
														Absolute Variance	\$	464

The following provides a description of the items within the 'Type' column:

Reg - Labor expenditures incurred during a regular 40 hour work week by salaried employees.

TM - Labor expenditures incurred by temporary employees; these employees are the only employees that are paid hourly.

OT - Labor expenditures incurred by a salaried employee in excess of the regular 40 hours scheduled per week.

CTO - Labor expenditures incurred on behalf of a salaried employee's compensated time off.

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DIRECT LABOR (Maintenance Crew)

Procedure 6:

For the 10 maintenance crew employee labor charges haphazardly selected from the FIDO report, examine the time entry for each of the employees in the labor hours tracking system for all maintenance crew workers (IMMS). For each of the 10 maintenance crew employee labor charges selected agree the total employee hours as obtained from TRAMS to IMMS.

Review the maintenance crew labor expenditure amount billed to the respective EAs and report the methodology used to compute the hourly maintenance crew bill rates. Report any adjustments made to the pay rate as referenced in the proceeding paragraph in order to arrive at the hourly maintenance crew bill rates.

Recalculate each of the hourly maintenance crew bill rates for the selected 10 maintenance crew employee labor charges in accordance with the prescribed formulas. In each instance recalculate the labor expenditure amount by multiplying the hourly maintenance crew bill rates by the hours worked. Agree each of the recalculated labor expenditure amounts to the expenditure report and TRAMS. In addition, examine the nature of the labor expenditures to determine whether the expenditure appears to relate to a BATA project.

Results:

For the 10 maintenance crew employee labor charges haphazardly selected from the FIDO report, we examined the time entry for each of the employees in the labor hours tracking system for all maintenance crew workers (IMMS). For 8 of the selected employee labor charges, marked by a "✓" or an "X" we agreed the employee name, posting date, supervisor's name, pay rate and hours to IMMS without exception. For 2 selections, we were able to agree all above information to IMMS except for total hours; variances of 2 and 2.2 hours exist between IMMS and TRAMS. These selections are marked by a "Y" and "Z", respectively. We then agreed each of the 10 regular employee pay rates per IMMS to the respective employee's personnel files without exception.

In reviewing the maintenance crew employee labor expenditure amount billed to the respective EAs it was noted that for regular hours and compensated time off hours, the hourly bill rate was computed by adding a Payroll Reserve Rate (PRAR) to the pay rate referenced in the preceding paragraph. This in turn resulted in a computed bill rate which when multiplied by the hours worked arrived at the amount charged against the EA. Specifically, we noted that the bill rate was computed as follows:

- Regular hours: rate per hour per IMMS x (1+PRAR rate) x hours worked
- Overtime hours: (rate per hour per IMMS x hours of overtime worked) x 1.5
- Compensated time off hours: rate per hour per IMMS x (1+PRAR rate) x CTO hours x 1.5

We obtained the calculation of the PRAR for the period under review and tested the calculation for mathematical accuracy without exception. We noted that the PRAR was comprised of benefit inputs and included benefit descriptions. We obtained the State Administration Manual and reviewed Section 8470 to agree the benefit descriptions inherent in the PRAR calculations for each of the employees selected to the handbook without exception.

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We recalculated each of the hourly "calculated rates" for the selected 10 maintenance crew employee labor charges in accordance with the formulas depicted above without exception. In each instance we recomputed the maintenance labor expenditure amount by multiplying the calculated rate by the hours worked. We then agreed each of the recalculated labor expenditure amounts to the expenditure report and TRAMS; please see below "✓" for selections in which the recalculated balance did not vary from the expenditure report or TRAMS. Selections marked by an "X" tickmark indicate that a variance exists between TRAMS and the recalculated balance; total absolute variance noted is \$404 (and aggregated is \$129). The DOT was unable to provide additional support to reconcile the differences as of the date of this report.

We identified the EAs that the labor charges were associated with and examined the A, B & C-cards for each of these EAs. These cards provide a description of the nature of the expense, the funding district and the corresponding project covered by the EA. Based on our reading of the descriptions and our knowledge of the BATA project activities we did not note any exceptions to the assertion that the EAs included expenditures that were BATA project related.

Selection	EA	Type	Hourly Rate	PPAR	Hours	Expenditures	T/M	Recalculated Difference
	926854	REG	\$ 19.92	61.30%	76.00	\$2,442.40	✓	(0)
	926852	REG	\$ 20.90	61.30%	6.00	\$205.24	X	3
	926857	REG	\$ 25.12	61.30%	88.00	\$3,627.29	X	62
	926857	REG	\$ 29.78	61.30%	167.00	\$8,022.63	X, Y	(96)
	926855	OT	\$ 17.65	61.30%	17.00	\$465.33	X	15
	926855	OT	\$ 30.32	61.30%	17.00	\$765.78	X	(7)
	926854	OT	\$ 30.65	61.30%	20.00	\$919.42	✓	(0)
	926857	OT	\$ 25.12	61.30%	31.00	\$1,185.95	X	18
	926855	CTO	\$ 26.98	61.30%	18.00	\$1,215.15	X	40
	938700	CTO	\$ 30.65	61.30%	3.30	\$244.69	X, Z	(163)
Net Variance:								(129)
Absolute Variance								404

The following provides a description of the items within the 'Type' column:

Reg - Labor expenditures incurred during a regular 40 hour work week by salaried employees.

OT - Labor expenditures incurred by a salaried employee in excess of the regular 40 hours scheduled per week.

CTO - Labor expenditures incurred on behalf of a salaried employee's compensated time off.

OVERHEAD - 2007/2008 Indirect Cost Rate Calculations

Procedure 7:

Obtain the indirect cost rate calculations applicable to the 2007 / 2008 fiscal year for each of the respective programs. List the types of programs subject to indirect cost rate recovery.

Provide a narrative on the nature of the indirect cost rates as well as the methodology of computing the rates. Review the indirect cost rate calculations and test the mathematical accuracy of the

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calculations. Agree the calculation inputs (budgeted amounts and actual amounts) to supporting evidence where applicable, namely the governor's budget and TRAMS.

Results:

We obtained the indirect cost rate calculations applicable to the 2007/2008 fiscal year for each of the respective programs. Because BATA (District 04) only reimburses costs associated with Program 20, only those ICRP calculations will be reviewed.

20.10 - Highways and Capital Outlay
20.30 - Local Assistance
20.40 - Program Development
20.70 - Highways Toll Collections and Operations
20.80 - Highways Maintenance

Indirect cost rates are calculated and applied based on the nature of the cost. We noted that two overhead recovery rates are calculated for each program as follows:

- **Functional rate:** This relates to direct billing to the work function (indirect cost) and are identified by code 20. These are all the indirect costs (indirect labor and operating expense) charged directly to the functional program and include items such as: office supplies, training, clerical support, jury duty, license and conference fees, safety, informal time-off, travel and per diem, and department superintendent costs. A functional rate is also utilized to allocate indirect costs previously recorded as direct costs, which are unable to be appropriately apportioned due to the nature of the cost. The functional rate is calculated as the ratio of budgeted indirect cost (including both labor and operating expenses) to budgeted direct labor cost (specific to the program in question).

The budgeted direct labor cost (denominator in the functional rate computation) is determined based on the "total personal services" extracted from the governor's budget for the 2007/2008 fiscal year. This "total personal services" amount includes both direct and indirect labor costs and accordingly is reduced by the indirect component which is calculated based on the ratio of 2 years prior actual indirect labor cost to actual direct labor cost. This indirect component forms part of the budgeted indirect costs in the ratio calculation.

The budgeted indirect costs (numerator in the functional rate computation) include three components; namely:

- (1) the indirect labor component referenced in the proceeding paragraph,
- (2) budgeted indirect operating expenses extracted from the operating budget and subject to a ratio calculation of actual indirect operating expenses to total actual operating expenses for the 2 years prior; and
- (3) a "true-up" roll forward adjustment from the 2005/2006 year.

We noted that the functional rates only applied to certain programs. No functional rate is applied to the toll collection component of the 20.70 program and no functional rate is applied to the 50 administration programs, discussed below. This is consistent with our understanding from prior year review.

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The functional rate calculations for the respective programs are included as Appendix 1 to this report. For each of these calculations we tested the mathematical accuracy without exception.

For each of the functional rate calculations we agreed the 2007/2008 budgeted amounts to the proposed governor's budget documented within the BMS (Budget Management System) without exception.

As noted above each of the functional rate calculations include a "true-up" roll forward adjustment from the 2005/2006 year. Each of these adjustment calculations is included alongside the respective 2007/2008 functional rate calculations in Appendix 1. For each of these 2005/2006 adjustment calculations we agreed the budgeted amounts to the 2005/2006 budget without exception and we agreed the actual expenditure amounts to TRAMS without exception.

- **Administration rate:** An administration rate is utilized to allocate costs associated with the general operation of the department, and includes operational costs such as accountants and lawyers payroll costs. The administration rate is calculated as the ratio of budgeted administration costs to budgeted direct labor cost (all programs).

The budgeted direct labor cost (denominator in the administration rate computation) is determined based on the "total personal services" extracted from the proposed governor's budget for the 2007/2008 fiscal year. This "total personal services" amount includes both direct and indirect labor costs and accordingly is reduced by the indirect component which is calculated based on the 2 prior years' ratio of actual indirect labor cost to direct labor cost. Contrary to the functional rate computation this indirect component appropriately does not form part of the budgeted administration costs in the ratio calculation.

The budgeted administration costs (numerator in the functional rate computation) include three components; namely:

- (1) a selection of administration expenses which include legal fees, equipment use depreciation, professional and technical service fees, building depreciation, bond interest expense, program 50.10 & 50.60 general administration & professional/technical services
- (2) a pro rata charge representing general administration costs allocated from the central agency, and
- (3) a "true-up" roll forward adjustment from the 2005/2006 year.

We noted that the same administration rates applied to all five of the programs mentioned above. We learned that per AB 144, reimbursed work projects under Category 'B' (maintenance and reconstruction work of toll facility buildings and toll booths that is paid from toll revenues) would NOT be subject to 'administrative' overhead costs. In order to identify reimbursement projects for exclusion of 'administrative' overhead application, EA Type Codes 60 and 65 were established.

The administration rate calculation is included as Appendix 2 to this report. We tested the mathematical accuracy of the calculation without exception.

For each of the functional rate calculations we agreed the 2007/2008 budgeted amounts to the proposed governor's budget documented within the BMS (Budget Management System) without exception

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As noted above the administration rate calculation includes a "true-up" roll forward adjustment from the 2005/2006 fiscal year. This adjustment calculation is included alongside the 2007/2008 administration rate calculation in Appendix 2. For the 2005/2006 adjustment calculation we agreed the budgeted amounts to the 2005/2006 budget without exception and we agreed the actual expenditure amounts to TRAMS without exception.

Procedure 8:

Obtain a copy of the Indirect Cost Rate Proposal (ICRP) approval letter from the California Department of Finance and the US Department of Transportation. Review the letter for evidence of approval of the 2007 / 2008 indirect cost rates.

Results:

We obtained a copy of the Indirect Cost Rate Proposal (ICRP) approval letter from the California Department of Finance and the US Department of Transportation. We noted approval of all of the indirect cost rates without exception.

Procedure 9:

Provide a tabular summary of the DOT 2007 / 2008 functional and administration rates by program as well as a summary of the functional and administrative rates as recalculated by PricewaterhouseCoopers.

Results:

The following table provides a summary of the DOT 2007/2008 functional and administration rates by program as well as a summary of the functional and administrative rates as recalculated by PricewaterhouseCoopers.

DOT Calculation				PwC Calculation			
Program	Functional	Admin	Billing rate	Program	Functional	Admin	Billing rate
20.10 Highways/Capital outlay	44.70%	27.87%	72.57%	20.10 Highways/Capital outlay	44.70%	27.87%	72.57%
20.30 Local Assistance	14.45%	27.87%	42.32%	20.30 Local Assistance	14.45%	27.87%	42.32%
20.40 Program Development	14.45%	27.87%	42.32%	20.40 Program Development	14.45%	27.87%	42.32%
20.70 Toll collection	n/a	27.87%	27.87%	20.70 Toll collection	n/a	27.87%	27.87%
20.70 Operations	38.92%	27.87%	66.79%	20.70 Operations	38.92%	27.87%	66.79%
20.80 Maintenance	39.71%	27.87%	67.58%	20.80 Maintenance	39.71%	27.87%	67.58%

Procedure 10:

From the listing of expenses as identified in the FIDO report, haphazardly select a sample of 45 overhead expenditures and obtain the direct labor cost attributable to each of the selected expenditures per "microfiche data OAR035." For each of the overhead charges, recalculate the overhead charge by applying the DOT functional and administrative rates against the direct labor costs, in line with the overhead application rate policy.

Results:

From the listing of expenses as identified in the FIDO report, we haphazardly selected a sample of 45 expenditures relating to overhead (indicated by Agency Object Code 093). We obtained the

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direct labor cost attributable to each of the selected expense per "Microfiche Report OAR035". We recalculated the overhead charge by applying the DOT functional and administrative rates, in line with policy, against the direct labor costs per Microfiche OAR035 and tied to the TRAMS report without exception.

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#	EA	Functional Rate	Admin. Rate	Amount per Microfiche	Amount per Trams	PwC Calculated Difference
1	926852	39.71%	27.87%	21,139.78	21,139.75	-
2	926855	39.71%	27.87%	4,522.39	4,522.40	-
3	926855	39.71%	27.87%	20,237.29	20,237.27	-
4	926856	39.71%	27.87%	24,424.16	24,424.22	-
5	926853	39.71%	27.87%	3,834.51	3,834.52	-
6	926851	39.71%	27.87%	2,090.05	2,090.05	-
7	926853	39.71%	27.87%	958.45	958.45	-
8	926856	39.71%	27.87%	19,766.20	19,766.27	-
9	926851	39.71%	27.87%	792.12	792.13	-
10	0060H3	44.70%	27.87%	2,148.19	2,148.18	-
11	014011	44.70%	27.87%	2,230.93	2,230.94	-
12	3A6743	44.70%	27.87%	193.82	193.82	-
13	0060A3	44.70%	27.87%	144,561.76	144,561.77	-
14	011213	-	27.87%	62.83	62.84	-
15	013092	44.70%	27.87%	381.02	381.02	-
16	0120P2	44.70%	-	594.09	594.09	-
17	012022	44.70%	-	2,229.93	2,229.94	-
18	012052	44.70%	-	301.63	301.62	-
19	012023	44.70%	-	219,303.24	219,303.11	-
20	0120F2	44.70%	-	3,562.26	3,562.27	-
21	0120J2	44.70%	-	3,109.89	3,109.90	-
22	0120N1	44.70%	-	938.31	938.31	-
23	0120F3	44.70%	-	289,602.05	289,602.11	-
24	0120P2	44.70%	-	1,211.59	1,211.61	-
25	012022	44.70%	-	979.65	979.65	-
26	012052	44.70%	-	371.06	371.06	-
27	0120J3	44.70%	-	3,476.57	3,476.56	-
28	0120L3	44.70%	27.87%	382,932.06	382,932.02	-
29	0120T1	44.70%	27.87%	71,629.10	71,629.16	-
30	132953	44.70%	27.87%	6,195.73	6,195.74	-
31	010901	-	27.87%	13,621.28	13,621.30	-
32	006063	44.70%	27.87%	44,094.66	44,094.64	-
33	011273	-	27.87%	1,511.91	1,511.90	-
34	012023	44.70%	-	159,622.29	159,622.18	-
35	977088	-	27.87%	4,617.40	4,617.43	-
36	977088	-	27.87%	3,114.25	3,114.21	-
37	926857	39.71%	27.87%	9,328.16	9,328.16	-
38	3A6721	44.70%	27.87%	3,797.56	3,797.56	-
39	977027	-	27.87%	2,999.37	2,999.37	-
40	012023	44.70%	-	241,125.65	241,125.63	-
41	0120K3	44.70%	27.87%	28,965.25	28,965.23	-
42	0120L3	44.70%	27.87%	34,230.23	34,230.27	-
43	0120K1	44.70%	-	4,095.45	4,095.44	-
44	0120L1	44.70%	-	60,566.53	60,566.44	-
45	0435V3	44.70%	-	226,496.45	226,496.41	-



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We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the operating expenses charged by the California Department of Transportation (DOT) to the Bay Area Toll Authority (BATA). Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of MTC, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

September 24, 2008

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Appendix 1

20.10 Capital Outlay Support

20.10 Highways/ Capital outlay		For Carried Forward Adjustment			
Total Program 20.10 (Functional)	Budget FY 07/08	Total Highways - Program 20.10	FY 05/06 Budget	FY 05/06 Actual	Variance
Total personal services (Labor)	\$ 990,826,000	Total Personal Services (Labor)	944,280,000	947,792,913	(3,512,913)
Less:		Less:			
Program Administration Personal Services	(250,197,909)	Functional Program Person Services	(214,523,534)	(239,331,431)	24,807,897
Total budgeted Direct Personal Services	740,628,091	Total Direct Personal Services	729,756,466	708,461,482	21,294,984
Total Functional Indirect		Total Functional Indirect			
Program Admin Personal Services	250,197,909	Total Program Admin Personal Services	214,523,534	239,331,431	(24,807,897)
Program Administration O/E	75,333,676	Program Administration Indirect O/E	118,204,736	90,285,154	27,919,582
Roll Forward Adjustment for 07/08	4,918,398	Total Indirect Cost Pool	332,728,270	329,616,585	3,111,685
	331,049,982	Total Indirect Costs	332,728,270	329,616,585	3,111,685
Indirect cost rate (%)	44.70%	Total Direct Personal Services	729,756,466	708,461,482	21,294,984
		Fixed 2005/2006 ICRP	37.54%		
		Indirect Cost Recovery for FY 2005-06			
		Recovery of indirect costs (Fixed Rate x Actual Base)	37.54%	788,461,482	265,956,440
		Actual FY 05-06 indirect cost pool			270,874,938
		(Under) Over Recovery to be carried forward to FY 05/06			(4,918,398)

20.30 & 20.40 Local Assistance/Development

Highways - Program 20 & others		For Carried Forward Adjustment			
Total Prog. 20.30 & 20.40	Budget FY 07/08	Total Highways - Program 20.30&20.40	FY 05/06 Budget	FY 05/06 Actual	Variance
Total personal services (Labor)	56,054,000	Total Personal Services (Labor)	47,050,000	52,309,661	(5,251,661)
Less:		Less:			
Program Administration Personal Services	(7,266,363)	Program Administration Person Services	(5,325,826)	(6,780,973)	1,455,153
Total budgeted Direct Personal Services	48,787,637	Total Direct Personal Services	41,724,174	45,528,687	(3,796,508)
Total Functional Indirect		Total Functional Indirect			
Program Administration Personal Services	7,266,363	Program Admin Personal Services	5,325,826	6,780,973	(1,455,153)
Program Administration O/E	1,876,860	Program Administration O/E	4,724,433	1,223,612	3,000,821
Roll Forward Adjustment for 07/08	(2,093,150)	Total Indirect Cost Pool	10,050,259	8,504,581	1,545,678
	7,049,673	Total Indirect Costs	10,050,259	8,504,581	1,545,678
Indirect cost rate (%)	14.45%	Total Direct Personal Services	41,724,174	45,528,687	(3,796,508)
		Fixed 2005/2006 ICRP	14.38%		
		Indirect Cost Recovery for FY 2005-06			
		Recovery of indirect costs (Fixed Rate x Actual Base)	14.38%	45,528,687	6,547,024
		Actual FY 05-06 indirect cost pool			4,453,666
		(Under) Over Recovery to be carried forward to FY 05/06			2,093,358

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20.70 Transportation Operations

20.70 Highways / Toll Collections & Operations	
Total Program 20.70 (Functional)	Budget FY 07/08
	\$
Total personal services (labor)	129,536,000
Less:	
Program Administration Personal Services	(23,353,199)
Total budgeted Direct Personal Services	106,182,801
Total Functional Indirect:	
Program Administration Personal Services	23,353,199
Program Administration: OE	6,113,978
Toll Forward Adjustment for 07/08	11,854,899
	41,322,076
Indirect cost rate (%)	38.92%

For Carried Forward Adjustment			
Total Highways - Program 20.70	FY 05/06 Budget	FY 05/06 Actual	Variance
Total Personal Services (labor)	101,093,160	110,494,309	(9,401,239)
Less:			
Program Administration Personal Services	(9,435,314)	(19,920,313)	10,484,999
Total Direct Personal Services	91,657,846	90,574,086	1,083,760
Total Functional Indirect:			
Program Admin Personal Services	9,435,314	19,920,313	(10,484,999)
Program Administration: OE	2,468,087	3,854,737	(1,386,710)
Total Indirect Cost Pool	11,903,401	23,575,110	(11,671,709)
Total Indirect Costs	11,903,401	23,575,110	(11,671,709)
Total Direct Personal Services	91,657,846	90,574,086	1,083,760
Fixed 2005/2006 ICBP	17.17%		
Indirect Cost Recovery for FY 2005-06			
Recovery of indirect costs (Fixed Rate x Actual Base)	17.17%	90,574,086	15,551,571
Actual FY 05-06 Indirect cost pool (Under) Over Recovery to be carried forward to FY 05/06			27,406,470
			(11,854,899)

20.80 Maintenance

20.80 Highways / Maintenance	
Total Program 20.80 (Functional)	Budget FY 07/08
	\$
Total personal services (labor)	405,799,000
Less:	
Program Administration Personal Services	(84,162,768)
Total budgeted Direct Personal Services	321,636,232
Total Functional Indirect:	
Program Administration Personal Services	84,162,768
Program Administration: OE	42,820,472
Toll Forward Adjustment for 07/08	741,638
	127,733,878
Indirect cost rate (%)	39.71%

For Carried Forward Adjustment			
Total Highways - Program 20.80	FY 05/06 Budget	FY 05/06 Actual	Variance
Total Personal Services (labor)	360,679,000	394,569,989	(33,910,989)
Less:			
Program Administration Personal Services	(74,937,578)	(81,838,014)	6,900,436
Total Direct Personal Services	285,741,422	312,751,955	(27,010,533)
Total Functional Indirect:			
Program Admin Personal Services	74,937,578	81,838,014	(6,900,436)
Program Administration: OE	105,125,521	115,990,907	(10,874,386)
Total Indirect Cost Pool	180,063,099	197,837,920	(17,774,821)
Total Indirect Costs	180,063,099	197,837,920	(17,774,821)
Total Direct Personal Services	285,741,422	312,751,955	(27,010,533)
Fixed 2005/2006 ICBP	63.02%		
Indirect Cost Recovery for FY 2005-06			
Recovery of indirect costs (Fixed Rate x Actual Base)	63.02%	312,751,955	197,996,282
Actual FY 05-06 Indirect cost pool (Under) Over Recovery to be carried forward to FY 05/06			117,837,920
			(741,638)

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Appendix 2

Highways - Program 20/ Administration	
Total Highways - Program 20	Budget 07/08
	\$
Total Personal Services (direct labor)	1,582,215,000
Less:	
Program Administration Person Services (budgeted indirect labor)	(364,980,239)
Total Budgeted Direct Personal Services	1,217,234,761
General Administration & Professional/Technical Services (Program 50.10 & 50.60)	201,479,251
Legal - Less Tort (Program 20.65)	5,507,534
Estimated Equipment Use Allowance (depreciation)	11,570,850
Building (2% depreciation)	11,358,137
Bond interest expense	2,094,593
Subtotal	232,008,364
Hold Forward Adjustment from FY05/06	(1,175,908)
Prorate	108,427,783
	339,260,239
Indirect cost rate for highways program (%)	27.87%

For Carried Forward Adjustment			
Total Highways - Program 20	FY 05/06 Budget	FY 05/06 Actual	Variance
Total Personal Services (labor)	1,472,366,000	1,505,186,942	(32,820,942)
Less:			
Program Administration Person Services	(298,647,972)	(347,870,737)	49,222,765
Total Direct Personal Services	1,173,718,028	1,157,316,205	16,401,823
General Administration & Professional/Technical Services (Program 50.10 & 50.60)	160,770,107	189,896,760	(29,117,653)
Legal - Less Tort (Program 20.65)	60,094,506	6,787,734	53,306,772
Estimated Equipment Use Allowance (depreciation)	10,614,218	11,570,850	(956,632)
Building (2% depreciation)	9,668,317	11,358,137	(1,689,820)
Bond interest expense	2,350,757	2,351,506	(749)
Subtotal	256,406,905	230,942,986	25,463,919
Add: PRORATA	59,515,634	80,190,487	(20,674,853)
Total Indirect Cost Pool for Highways Program	315,922,539	311,133,453	4,789,086
Total Indirect Costs	315,922,539	311,133,453	4,789,086
Fixed 2005/2006 ICPR	26.08%		
Indirect Cost Recovery for FY 2005-06			
Recovery of indirect costs (Fixed Rate x Actual Base)	26.14%	1,157,316,205	302,522,456
Actual FY 05-06 Indirect cost pool			301,346,548
(Under) Over Recovery to be carried forward to FY 05/06			1,175,908